



OWNER-MANAGED PROGRAMS

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The Most Entrepreneurial City In America

Welcome to Visalia, California -- a city that could teach most companies a thing or two about good management.
By DAVID OSBORNE | Sep 1, 1985

Ted Gaebler watched with admiration as the trap sprang shut, although he found himself in its jaws. Only weeks before, the California legislature had voted to return \$338 million to local governments. Visalia, the city Gaebler managed, was to get \$1.4 million -- almost exactly the amount the local school district needed to build a new school and stave off double sessions. In the six years since Proposition 13, the district had been unable to finance any major construction, so Gaebler expected an immediate raid on his treasury. Sure enough, there it was in the evening paper: "City Should Fund New School."

Gaebler's choices were obvious: Hand over a check for \$1.4 million, or earn the wrath of every parent in town. But Ted Gaebler isn't your typical city manager. I've never forgotten when I worked at Columbia [Me.]," he tells audiences, referring to the "new town" built by James Rouse, the legendary developer who also did Boston's Quincy Market and Baltimore's Harborplace. "We would be wailing and gnashing our teeth about some horrible social problem, and Jim Rouse would come in and muse philosophically, 'How can I profit from this problem?'"

When the school district sprang its trap, Gaebler asked his staff the same question. Months later, after a series of negotiations and land purchases, a four-parcel swap and sale left the district with \$1.2 million and a prime site for its new school -- and the city with commercial property that it expects to sell for a tidy profit.

The deal was without precedent elsewhere, as far as anyone in Visalia knows. But for Gaebler and his staff, it was not unusual. This is a city, after all, that stepped in and ran a minor-league baseball franchise for six years -- the only municipally owned professional baseball team in the United States at the time -- after the Mets pulled out and no private buyer turned up. It is a city that won the scramble to buy an Olympic training pool last summer, at a savings of \$400,000, because, after hearing about the deal on a Thursday, it was able to cut a check the following Monday.

Visalia, in other words, is what Don Borut of the International City Management Association calls "one of the most entrepreneurial cities in America." Borut may not have taken a scientific survey before bestowing that honor, but from all the evidence, he could not be too far off. At first glance, "entrepreneurial government" seems a contradiction in terms. Many entrepreneurs consider government, by its very nature, to be inefficient, unwieldy, and bureaucratic -- the antithesis of entrepreneurial. Hence the widespread belief, in business circles, that the government is best that governs least. Ted Gaebler and his colleagues have proven that there is another way.

Gaebler, whose glasses and deadpan delivery bring fleeting images of a taller Woody Allen, is a fanatic on the subject. He speaks in rapid, precise bursts, with the zeal of an apostle. If an entrepreneur is someone who knows there is a better way and will risk everything to prove it, Gaebler fits the definition perfectly. He does not think of the city manager's position as a job, he says, but as part of a mission "to change the nature of city government." He took that mission to new frontiers last month, when he became city manager of San Rafael, Calif., the seat of affluent Marin County.

Gaebler first arrived in Visalia a decade ago, after a career that included The Wharton School, two years under

Rouse in Columbia, and service in five city governments. He could hardly have landed in a better spot. Visalia boasts a 30-year tradition of farsighted city councils and managers, and its people fairly burst with civic pride. Clean, well laid out, and tree-lined, it sits like a green oasis on the eastern edge of the San Joaquin Valley, in the shadow of the High Sierras. Its population, fueled by an influx of refugees from overcrowded coastal California, has doubled since 1970, to 59,000. But rather than succumbing to sprawl, its leaders have adopted a managed-growth plan and stepped up their beautification efforts, preserving Visalia's reputation as "the jewel of the Valley."

The new city manager took office a month before Proposition 13, which drained local California coffers of \$7 billion during its first year alone -- and ended forever, Gaebler believes, the era in which people looked to government for more and more services. Proposition 13, he says, showed that "we're not going to go the Swedish route and let government take 50% of our pay. We're going to put a limit on at 38%." That means the fundamental mission of government must change, from providing services to facilitating them, making sure they are provided by others.

"Be a catalyst," Gaebler urges other government officials. "Be a broker. Don't be a doer. My ideal concept of city government is a \$150,000-a-year city manager and five \$100,000-a-year assistants. Period. They do nothing but broker the community's services."

More important, he stresses, government officials must learn to take risks and seek profits, "think outside the box," avoid paperwork and regulations. Managers must be given autonomy and encouraged to continually rethink their "product mix." They must learn to "leverage the maximum benefit out of [their] dollars by using other people's money." They must be willing to divest services -- "we gave the library to the county, the ambulance to a private hospital, day care to the churches and the junior college" -- but they must also thrust city government into roles not ordinarily considered its province. And all the while, they must be given room -- and must give their subordinates room -- to make mistakes.

"I am trying to get people to think like owners, not bureaucrats," Gaebler preaches. "To have the mental set, 'If this were my money, would I really spend it this way?'"

"Other cities do a project and see what the expense is," adds John Biane, Visalia's real estate manager. "We do a project and figure how much money we can make." Gaebler was fortunate to work for a city council that thought along similar lines. One of his first moves, at the council's urging, was to adopt a budget system that encouraged entrepreneurial behavior.

Visalia was already using "enterprise accounting" for some of its departments, treating them as businesses responsible for generating enough revenue to cover their own costs. Still, the council and Gaebler's staff spent months poring over every line of every budget, as traditional governments do. "I remember debating late at night with the airport people whether or not they needed a new typewriter and desk out there," says councilman Bonnel Pryor.

Gaebler found a solution in Fairfield, Calif., which had just adopted a budget system in which each department would automatically get the same amount every year, adjusted for inflation and population growth. (Characteristically, Visalia changed the formula to include only half the inflation rate.) The departments got to keep any savings -- thus eliminating the year-end rush to spend their entire budgets in order to avoid future cuts.

This system, called "expenditure-control budgeting," gets the city council out of the typewriter-and-desk business, freeing councillors to focus on such broad policy issues as housing or downtown beautification. It also forces managers to make the tough choices for which they are paid. If the police chief wants more squad cars, he must come up with the money himself.

Arne Croce, Gaebler's assistant city manager before he became manager of Los Altos, Calif., calls the system a "budgeting revolution" that has profound effects on management behavior. Examples range from complex new financing schemes to something as simple as sweeping the streets less often.

"Our standard for street sweeping, without much thought, was every three weeks," says Gaebler. "With this system, the departments had an incentive to carefully check their service levels. So the guy began testing it -- without anyone else knowing, he went to four weeks, under the guise of equipment being broken down. Then he slipped to five weeks. At five weeks, there was a little bit of bitching. At six weeks, there was a lot of bitching, so he went back to five, and eventually to four."

The police department saved money on its squad cars by developing a lease-purchase program now copied by other cities. It also switched from a system of three officers sharing each car on revolving eight-hour shifts to one in which each officer has his own car and can take it home. With one stroke, this put more police cars on city streets and improved maintenance, because officers felt a new sense of ownership. The average car now lasts five years, compared with 18 months before the change.

After five years of expenditure-control budgeting, Gaebler had a statistical analysis done to see, in retrospect, which departments had gone into the process lean and which had gone in fat. Based on the findings, he retroactively took back \$1.9 million in savings from departments that didn't need the funds. "Now, I think the system is clean," he says. "When I started, we didn't have any model, other than a few months' experience in Fairfield. And that was the beautiful part: We didn't have to have a finished product. That's one of the things that causes the inertia in government -- unless you have something that is absolutely proven, you don't ever start anything. The council here and the staff were willing to take a flier -- let's see how it works, let's see what happens. Obviously, that means you make some midcourse corrections, which we did."

The effects of the new system are perhaps best illustrated by numbers: Visalia is now well below average in employees per capita, and it boasts \$20 million in surplus and reserves -- almost as much as its total annual operating expenditures. Part of the credit must go to its strong economic base; as the retail center of Tulare County, Visalia garners 40% of all sales taxes collected in the county. But tight budgeting did not hurt, either.

On the personnel side, Gaebler and the council imported several private-sector strategies to motivate people. The first was an Employee Development Program, designed to help talented people move up within the organization. Rather than having outside consultants run the program, however, they used volunteers from the city's ranks.

Carol Cairns was a youth-development officer for the police department when she signed up. Today, she runs Visalia's human-resources department. And Cairns isn't unique. Two other department heads have come from the police force, and when the airport manager left, his secretary won the job. "Ted fosters a climate where people can come in and say, 'Hey, I'm here, here's what I have to offer,'" says Arne Croce. "A lot of people have taken him up on that."

Although Visalia's pay system is still fairly traditional, its bonus program is not. Department heads are eligible for unlimited bonuses, while their employees can earn up to \$1,000 apiece. The first round, awarded two years ago, was used to reward outstanding group efforts. "The theory was that individual effort has people hoarding information and competing with each other," explains Gaebler. "Group effort is what you want to foster -- people sharing things and doing things together."

Last summer, the principle was extended. If an employee comes up with ideas that make or save money for the city, he or she gets to keep 15% -- with no cap on the total figure. Groups will divvy up 30%.

The results? Morale is high, employees work hard, and city government bubbles with ideas. Vic Dossey, a local banker who spent a month working on staff, shakes his head in amazement: "You wouldn't find many instances in which people put forth that much time and effort in the private sector."

Mike Ramsey, an earnest, burly 41-year-old who runs Visalia's Department of General Services, has had an unusual career. Ramsey studied for the ministry, but became a police officer instead. It is still easy to imagine him walking a beat, the neighborhood cop who is known and liked by all. But after five years of frustration with a court system he believes favors the criminal over the victim, he moved into city administration.

Ramsey supervises three city functions: public transit, solid-waste collection, and maintenance of the city's fleet

of 300 vehicles. Ramsey himself set up the transit system, which contracts with a private company to run a fleet of vans. The solid-waste system was in good shape when he took over, a fact he proved to his satisfaction by working the garbage trucks at four a.m. every Thursday for four months. When a large private company looked at the books in the hope of convincing the city it could do the job for less, it walked away without even making an offer.

In the fleet-maintenance division, however, Ramsey inherited trouble. A supervisor had created severe morale problems before he was fired by Ramsey's predecessor, and a great deal of management turnover had followed. Meanwhile, the shop was running up deficits of \$20,000 to \$45,000 a year.

Ramsey told his 13 employees he was going to do three things. In three years, he said, he would start letting city departments take their vehicles to private repair shops if they preferred, thrusting the city shop into a new world of competition. Meanwhile, to get productivity up, he would begin tracking each employee's "applied time" -- the percentage of total hours spent on each specific job. Any employee who had 100% applied time for four weeks in a row would earn a steak dinner at the time and place of his choosing, as Ramsey's guest.

Finally, Ramsey announced a new system of participatory management. Every month -- more often if necessary -- all employees would meet to talk about their work. Ramsey promised that 85% of all management decisions would be made at those meetings, where he would have only one vote. Ten percent would be made with input from the meetings, and 5% would be his decisions alone.

Ramsey's plans were met with great skepticism. No other manager had stuck around long enough to provide stable management, his employees pointed out, much less good management. Why should they expect him to be different? In response, Ramsey promised to stay at least three years.

In the more than 3 years since then, he says, "I've probably terminated more employees than my predecessors did in 10 years." But among those who remain, morale is high. Head-to-head competition with private shops began in July, and everyone appears convinced the shop can hold its own. Applied time is up from 83% to well above 90%. The garbage trucks and street sweepers are on line 97% of the time, compared with 85% nationwide, and they are lasting 2 to 3 years longer than the national average. The entire deficit has been paid off.

Ramsey's employees cite two keys to their success: new equipment and the applied-time system. Before Ramsey arrived, they say, they had to rely on shoddy, anti-quoted tools, the cheapest that management could buy. Using their new power under participatory management, they asked for a larger tool allotment. "I showed them the department budget, and asked them where we were going to get the money," Ramsey remembers. "At first, they didn't understand a lot. But lights began turning on, and they went to work on it.

They contacted tool vendors and drew up lists of what they needed, then examined every account in the budget for surplus funds. Gradually, they focused in on energy expenditures.

For years, one heater had blown hot air outdoors, yet no one had ever bothered to mention it. "This is a classic example of ownership," says Ramsey. "For years, it was just a joke. Now they said, 'Why don't we shut that son of a bitch off?'" They also repaired the limiter switches on other heaters and kept the shop's huge vehicle doors closed during the winter, cutting small doors for people to use. After a year and a half, they had reduced energy consumption by 30%. The savings went into their tool allotment. Today, because management buys what the employees recommend -- "right down to the brand name and number," as one mechanic puts it -- they have what they need in order to do their jobs.

Ramsey took the energy audit to his superiors, proposing a \$125 bonus for every employee. Visalia's bonus program did not yet exist, however, and he met a stone wall. Only after nine months, when Ramsey threatened to pay the bonus out of his own pocket and tell his employees the city had let them down, did his superiors relent. The day he handed out the cash, he says, "There were broad smiles all the way around that table."

The maintenance workers don't compare their jobs to heaven, but they do feel that a great deal of progress has been made. The new equipment makes their work both easier and more productive, they say. The employees

don't complain about the applied-time system, because they realize that it lets management track the performance of each worker and each vehicle, and thus learn if either needs to be replaced. With this kind of scrutiny, says one, "If there's something extra that needs doing on a truck, you can bet your sweet ass it'll be done. Because if it comes back, they'll be lookin' for whoever worked on it. Comebacks are a no-no here."

For Ramsey, Gaebler, and crew, importing techniques from the private sector was not enough; they believed in turning the public sector itself into a hotbed of enterprise. When a group of private developers building a local industrial park needed to unload part of their land, the city bought it, put in streets and sewers, and sold it for a \$600,000 profit. When the city wanted to expand its convention activities and bring in a downtown hotel, it bought up \$2.8 million worth of land and sought out private bidders to construct and operate the hotel. When the convention staff wanted more cultural life in Visalia, it co-ventured with private promoters, limiting their risk in bringing headliner acts to town by putting up half the capital and taking half the profits.

Perhaps the best example is in housing, however. Several years ago, a citizens' task force found a dearth of affordable, moderate-income housing in Visalia. A typical government response -- if not silence -- might be to get federal funds to build a few large apartment buildings, which would quickly degenerate into low-income eyesores. Instead, the city council created a private, nonprofit organization called Visalians Interested in Affordable Housing (VIAH), loaned it \$100,000, and sold it 13 acres of excess land. Fifteen months after VIAH's first board meeting, 89 families moved into Twin Oaks, the organization's first residential development.

VIAH's board set out to avoid a public-housing image. Every house has a two-car garage, and to keep the neighborhood looking trim, the homeowners' association takes care of everyone's front lawn. Today, Twin Oaks looks like any other development, although the houses are small. The difference is that a two-bedroom house goes for \$33,000, a four-bedroom house for \$53,000 -- and the owners earn \$9,000 to \$18,000 a year. With interest rates as low as 4.75% -- depending on a buyer's income and the availability of federal mortgage money -- monthly payments, including taxes and homeowners' dues, range from \$256 to \$360.

Already, VIAH has broken ground on its second housing development, which will ultimately include some 2000 houses and a commercial center. Again, the city played a role -- loaning VIAH the money at 11% to buy the land and creating a mortgage-revenue bond program to make financing available at below-market rates. (Private developers will get most of the \$44 million the bond program will raise this year; only 10% will go to VIAH.) With no advertising, 180 names are on the waiting list.

"VIAH has already gone far beyond what anybody thought it could be," says Bob Hamar, a planning department official who works closely with the organization. Hamar gave up a summer vacation to shepherd Twin Oaks to completion, but he calls his position "the most exciting job in the city."

Visalia's public servants have one problem few in the private sector ever face: When they get too entrepreneurial, the local business community rises up in arms. Those who build low-end housing, for instance, believe VIAH has preempted part of their market. Business people also worry that Visalia will ultimately lose money on its hotel project and convention-center expansion. ("That's what they said about the baseball team," Gaebler retorts. In fact, the city made a small profit when it sold out to two local businessmen.) The loudest fireworks came when Gaebler floated a trial balloon on municipal homeowners' insurance, an idea that works in other cities. But there is no consensus on these issues -- some developers have supported Gaebler's ventures 100%; others have mixed reactions.

Burl Gann, who chairs a business watchdog organization called the Visalia Legislative Group, raises perhaps the most sophisticated objection. So far, he agrees, the city has not lost money on any of Gaebler's deals. But what about Gaebler's successors? Will they have the same business acumen? Once the principle is established, what will keep the city from getting in over its head? "The city is not as good at making investments as the private sector -- it just can't be," Gann insists. "Their bottom line is not profit. They don't have to go through the same analysis that the private sector does."

"That is a valid criticism," admits Gaebler. "I guess my only answer, feeble as it is, is would you prefer to have government stay the way it is? I think you need to take some risks."

Gann's group has taken a survey of business people in town concerning the city's intervention in the marketplace, and he plans to present the results to the city council. Before Gaebler took the job in San Rafael, there was talk of one or two "anti-Gaebler" candidacies for council this fall, although no one predicted such campaigns would succeed. Even among the developers, the desire was to set the city manager corralled, not fired.

The bottom line, says Board of Realtors president Larry Gilbert, is that Gaebler delivered efficient government and superb city services. "Unless you're directly impacted by the city's activities in private enterprise -- and I doubt that the average citizen is -- then you're probably not going to be convinced that there is a problem."

Bill Evans, another developer, believes that for most of his colleagues, the real problem wasn't Gaebler's specific actions, but that "he'd accumulated so much power. . . . Was he really interested in Visalia, or was he interested in creating what he wants -- a new kind of city government?"

Gaebler's personality only fanned the flames. He likes the limelight and is quick to engage in battle. Being a visionary, he is forever rallying his troops to new entrepreneurial frontiers -- talking, for instance, about the city as a corporation, himself as its chief executive officer, and the council as its board of directors. "It was a little scary to some of the folks outside, who heard my internal pep talk words and took them literally," he says. But that is the price you pay. "Would Martin Luther King have made any changes if he'd kept his mouth shut?"

Others, even Gaebler's staunchest supporters, see it slightly differently. "Ted just says stupid stuff," shrugs Greg Collins, one of his closest allies on the city council. "I don't know if it's a sign of immaturity, or what. He's got a lot of good ideas, but sometimes he just engages his mouth before he engages his mind."

The classic example came when Gaebler grabbed statewide television coverage by proposing to rebate \$25 of Visalia's budget surplus to every citizen as a "share" in the city. The police, who wanted higher salaries and better retirement pay, were outraged. And the city council, which had never passed on the idea, was embarrassed.

"In most places," says Collins, "Ted would probably have been fired. But his value is in promoting his approach to government, and we thought that outweighed his blunder. So we slapped his wrists and told him not to do that anymore."

Although some in town believe he wanted out before the November elections, Gaebler says he and his wife had always planned to leave Visalia when their youngest child graduated from high school, an event that took place in June. Gaebler sees the job in San Rafael as one that will give him seven years or so to "transition" into a new career: writing, speaking, consulting, spreading his message.

Meanwhile, his handpicked successor, Don Duckworth, faces some serious internal problems. The staff Gaebler leaves behind is in the midst of a transition from the excitement of start-up to the plateau of sustained achievement. The novelty has worn off, people are stretched thin, and the strains are beginning to show.

In many ways, it seems, Gaebler fits the stereotype of a charismatic entrepreneur who can inspire people with his vision, but who lacks the patience to manage a success. His style is to throw a lot of balls in the air and let his staff handle what comes down. In Visalia, he defined his role as 90% "external" -- dealing with the council and the community at large -- and relied on three assistants to run the organization. "Ted is an idea man," says Carol Cairns, "not an operations man."

"If a person is going to be an external manager, then he or she should have the ability to allow people beneath him to make decisions," adds John Biane, the real estate manager. "And that was not always the case."

A key factor, according to most management people, was that Gaebler's first generation of assistant city managers had moved on, and his new crop was not as strong or as much in tune with his philosophy. "They weren't risk-takers," says one staff member. "They didn't have a lot of interest in facilitating entrepreneurial behavior." Beyond the assistant city manager ranks, perhaps only two thirds of Visalia's 45 to 50 management people bought his approach, and only half of those really put it into practice. No one expected that Gaebler could completely transform his staff in seven years, but because his revolution was not complete, his most creative and

entrepreneurial managers were also his most frustrated. Some were already running small businesses on the side, and one could almost feel their itch to get into the private sector and show their stuff.

"Ted works hard to find the best people, but he doesn't set up the reward system to keep them," argues Mike Ramsey. "He does a good job of creating an environment in which they can grow. It's when they succeed that they get frustrated."

Curiously, such criticism is probably a healthy sign. Visalia will never undergo a complete transformation from bureaucracy to enterprise for, at bottom, government cannot and should not operate exactly as a business does. If it did, democracy would go out the window. Government will always move too slowly for the real entrepreneurs, and it will no doubt lose some of them to the private sector. But as measured against the typical city government, the frustrations in Visalia are more symptoms of success than those of failure.

The proof is that the model is spreading. Already, Gaebler is invited to preach his sermon nationwide, and cities from Hampton, Va., to Pueblo, Colo., are imitating his programs. Lawrence Mulryan, the mayor who brought him to San Rafael, expresses the respect with which Gaebler's philosophy is increasingly viewed. "Traditionally, smaller cities have left the aggressive, entrepreneurial developments to the private sector, but frankly, we have to realize that that's not going to be enough," Mulryan says. "We recently got \$12 million in redevelopment funds, and there's a lot of opportunity -- buying properties and assembling properties and reselling them -- to shape the destiny of our community. We need strong leadership to accomplish that."

"I always start my speeches," Ted Gaebler says, "by asking, 'Who in this room wants government to stay exactly the way it is?' I've never seen one hand go up, not at a Rotary Club, not at a PTA. And then I say, 'I gotcha, because that means you, like me,' are agents of change."

"For years, I thought I was selling ideas," he muses. "But it turns out what I'm selling is hope."

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